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## Funding Education Equitably

The “Comparability Provision” and the Move to Fair and Transparent School Budgeting Systems

Saba Bireda March 2011



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# Contents

- 1 Introduction and summary**
- 4 Lessons from the front lines**
- 7 Transition planning**
- 11 Expanding the role of school leaders**
- 13 Involving stakeholders**
- 14 Beyond budgeting**
- 16 Conclusion**
- 17 Endnotes**
- 19 About the author and acknowledgements**

# Introduction and summary

The old axiom that the rich get richer certainly plays out in the American classroom—often to the detriment of achieving academic success.

Data on intradistrict funding inequities in many large school districts confirm what most would guess—high-poverty schools actually receive less money per pupil than more affluent schools.<sup>1</sup> These funding inequities have real repercussions for the quality of education offered at high-poverty schools and a district’s ability to overcome the achievement gap between groups of students defined by family income or ethnicity.

The source of these funding inequities is not a deliberate scheme designed to steer more state and local funds to affluent schools. Rather it is often the result of an accumulation of higher-paid, more senior teachers working in low-poverty schools. High-poverty schools typically employ less-experienced, lower-paid teachers, thereby drawing down less of the district’s funds. The imbalance in funding created by this situation can total hundreds of thousands of dollars school by school.<sup>2</sup> Archaic budgeting practices that track positions instead of actual school expenditures only serve to reinforce this inequity.

Aside from concerns about the inequitable distribution of veteran and novice teachers across schools, students attending high-poverty schools actually need more funding to achieve at the level of their wealthier counterparts.<sup>3</sup> The federal government recognizes this fact with its allocation of federal funds under Title I of the Elementary and Secondary Education Act, or ESEA. One condition of receiving Title I funds is that districts allocate state and local funds equitably to non-Title I and Title I schools before spending federal monies. The “comparability” provision was implemented to ensure that schools spend Title I funds on services meant to enhance educational opportunities for students at high-poverty schools and not to make up for unfair shares of state and local resources stemming from conventional management and budgeting practices.

The comparability provision should be a strong tool to correct the funding disparities created by an inequitable distribution of higher- and lower-paid teachers. But for years, districts have been able to evade true comparability between schools due to a loophole in the law. The loophole allows districts to demonstrate compliance without comparing the amount of actual dollars spent at each school. Instead, districts can show comparability by placing equal numbers of teachers, on a per-pupil basis, at high- and low-poverty schools.

If a district does compare per-pupil expenditures, for example, the district can use a district-average teacher salary in calculations in place of actual salaries in school budgets. This common budgeting practice masks significant funding inequities. Under the current provision, districts can continue to receive Title I money even as their most high-poverty schools are deprived of fair shares of local and state funds.

The Center for American Progress previously discussed the need to close the comparability loophole in the next reauthorization of ESEA.<sup>4</sup> One necessary element of this goal is requiring districts to report the actual amount of money each school in the district receives in its annual allocation of state and local funds.<sup>5</sup> The foremost challenge for many districts will likely be updating accounting and budgeting practices to calculate school-level expenditures using actual dollars instead of abstract quantities such as full-time personnel slots. Once districts complete the task of being able to see how much schools are receiving in actual dollars, they must then move to the challenging task of devising a funding process that corrects the fiscal inequities that are uncovered.

CAP has proposed that a phase-in period will be necessary for districts to reach full compliance with a revised comparability provision. During this phase-in period, districts would have the opportunity to experiment with policies that allow them to meet the requirements of the new law. Districts that uncover funding inequities due to an imbalance in funds tied to teacher salaries will have to think of creative ways to shift salary expenditures or supplement funding for high-poverty schools.

Some fear that in pursuit of a quick fix, districts will rely on counterproductive measures such as forced transfers of teachers to achieve comparability. The tenuous link between years of experience and teacher effectiveness should give any superintendent concerned about student performance pause before pursuing such practices. Districts that rely on the forced reassignment of experienced teachers to achieve comparability miss an opportunity to direct resources toward

other effective strategies, such as expanding learning time, for increasing student achievement. Furthermore, teachers are generally protected from involuntary transfers in collective bargaining agreements and state law.<sup>6</sup>

Closing the loophole is sure to be a priority for the Obama administration when ESEA reauthorization occurs.<sup>7</sup> Several districts—including Baltimore, Hartford, Oakland, San Francisco, New York, and Los Angeles—have taken affirmative steps to address funding inequities even without the nudging of a more strenuous comparability requirement. Several districts now use weighted student funding formulas where schools are allocated funds based on the needs of students. As part of funding reforms, districts have also devolved many budgeting decisions to the school level and allow principals to manage important choices about spending related to staffing, curriculum, and academic enrichment activities.<sup>8</sup> Thus, an augmented comparability requirement is consistent with the idea of strategic, results-oriented management practices.

Districts that have taken aggressive steps to make school funding more transparent and equitable will have a significant advantage in adapting to a new comparability provision. For now, these districts provide a prospective view of the changes needed to fund schools fairly and the implications such reforms have on school and district operations. This report will highlight relevant issues that arise as districts attempt to design fair and transparent school funding systems.

# Lessons from the front lines

There are several issues districts will have to consider if the comparability provision is revised and the loophole closed. These are:

- How might funds be shifted to increase equity and meet the needs of all students?
- How can this be done with minimal disruption to school operations?
- How much input and control do school leaders have over school funds?
- Are funds budgeted in a manner that is transparent and understandable to stakeholders?
- Are funds spent in ways that have the most potential to improve academic achievement?

Overhauling school funding systems is complex and potentially politically difficult work, but maintaining the status quo in most districts is both inefficient and unfair for many students. Beyond compliance, the potential revision of the law presents an opportunity for districts to rethink the way funds are budgeted and allocated to schools. Fortunately, those bellwether districts that have significantly restructured school funding processes offer valuable guidance.

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## Actual versus average teacher salaries

One of the most debated aspects of the comparability loophole involves the use of average teacher salaries in school budgets. The current comparability provision allows districts to exempt “staff salary differentials for years of employment” in comparability calculations.<sup>9</sup> This language reflects current staffing and budgeting practices in most districts. Teaching positions are allocated to schools based on the numbers of students. If a school needs 25 teachers, it requests 25 teachers from the district. When the district calculates how much funding a school receives from the district, it does so using an district-average teacher salary, creating a total salary expenditure that equals the number of positions multiplied against this average teacher salary.

Researchers have discovered that this method of budgeting can conceal considerable gaps in actual salary spending between high- and low-poverty schools.<sup>10</sup> Higher-paid, more veteran teachers frequently move toward low-poverty schools while schools serving high populations of low-income students often employ lower-paid, junior teachers. Low- poverty schools employ higher-paid, more experienced educators while the district absorbs the cost over the average. Conversely, high-poverty schools are charged a rate higher than what their teachers are actually earning and don't recoup any of the money that they are saving the district. Let's look at an example.

### The Oakland experience

A revised comparability provision will require districts to confront this issue. Only the Oakland Unified School District factors actual teacher salaries into school budgets on a district-wide level (some schools in New York City, Los Angeles Unified, and Boston also use actual teacher salaries in school budgeting). Oakland's ability to successfully use actual teacher salaries indicates that concerns about potential prejudice against higher-paid veteran teachers and logistical difficulties in coordinating budgeting, staffing, and other administrative services may be unwarranted.

The Oakland Unified School District, or OUSD, introduced its Results-Based Budgeting system as part of a larger district reform plan in 2004. In creating its RBB plan, officials found that the district's highest-poverty schools were being shortchanged in the district's funding process because novice teachers worked in them at high rates.<sup>11</sup> Therefore, OUSD viewed the inclusion of actual teacher salaries in RBB as integral to bringing equity and transparency to the district.<sup>12</sup> The district developed a minimum total expenditure level for all schools and then adjusted the budgets of schools (including the actual cost of teachers) up or down to meet that expenditure level. Schools with lower staff expenditures receive additional funds to spend on resources intended to increase academic achievement.

Opponents of RBB believed that the inclusion of actual teacher salaries would encourage principals to try to "evaluate out" more expensive veteran teachers and make staffing decisions based on costs rather than quality.<sup>13</sup> According to Jason Willis, former budget director for OUSD, the district actually expected a natural migration of experienced teachers to high-poverty schools as a result of RBB.<sup>14</sup> Officials hoped that with additional funds, high-poverty schools could be made more attractive to a wide variety of teachers. To make his school more appeal-

ing, David Silver, principal of Think College Now, a high-poverty school in East Oakland, increased teacher prep time in an effort to increase collaboration among teachers. The school now has a more experience-diverse faculty.<sup>15</sup>

The use of actual teacher salaries does require principals to consider the costs of certain teachers, but as Silver notes, principals tend to simply think, “I’m going to hire who is good.”<sup>16</sup> Under a traditional budgeting system, a principal may tolerate an ineffective teacher and attempt to compensate for his or her presence in other ways. Under an RBB system, an ineffective teacher is a major expense for which there is little return on investment. OUSD officials familiar with RBB say that principals rarely articulate that a teacher’s cost is more important than his or her effectiveness in the classroom.<sup>17</sup> Furthermore, due process and antidiscrimination provisions present in state law are designed to protect teachers from being dismissed for reasons unrelated to their performance (such as cost).

In transitioning to RBB, the Oakland school district recognized that schools would want to retain highly paid veteran teachers. “The goal was to have a good mix of veteran and novice teachers, not to ‘rip’ veteran teachers out of the school,” states Matt Hill, who helped implement RBB. The district created a subsidy plan to allow schools with high numbers of veteran teachers to maintain their staffs even in the face of significant budget cuts. The need for the subsidy plan indicates the difficulty in managing the shift from average to actual teacher salaries.

The use of actual salaries also presents a logistical challenge for many district operations. District administrators noted that calculating actual salaries for part-time positions and support staff can complicate the use of actual salaries in a school-based budgeting plan. Budget and hiring calendars also have to be aligned in order for principals to correctly budget staff expenditures. District administrators noted the importance of aligning key district systems, particularly human resources, with changes in the funding and budgeting process.

# Transition planning

Full compliance with the comparability provision will mean many districts will have to make adjustments to the amount of state and local funding certain schools receive. Districts will have to figure out how to increase funding for historically underfunded schools and potentially scale back funding at other schools. One “quick-fix” response, which CAP has warned against, would be for a district to use involuntary transfers to redistribute teachers among low- and high-poverty schools.<sup>18</sup> Aside from the harmful implications for staff morale and student achievement, most collective bargaining agreements and contracts guarantee teachers a choice of school sites based on years of service, thereby prohibiting transfers for the purpose of achieving comparability.<sup>19</sup> It is likely that federal policy will echo this sentiment in disallowing forced transfers as a means of compliance with the comparability provision.

Districts, however, can employ other, more constructive actions such as offering financial incentives for more experienced, effective teachers to transfer to high-poverty schools; and using state and local funds to make high-poverty schools more attractive by expanding learning time (to reinforce lessons learned in the classroom) and providing planning time with other teachers.<sup>20</sup> Obviously these actions will take some time to draw higher-paid teachers to high-poverty schools. In the interim, districts like OUSD and New York City have built funding stability measures into their new funding formulas to ease the burden for schools heavily impacted by funding changes. Again, Oakland presents a compelling case in point.

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## Oakland's veteran teacher subsidy plan

In Oakland, where the district recognized that several schools would be unable to maintain their staffs and stay within their allocated budgets, OUSD began offering a veteran teacher subsidy in 2004-05. In its first year, OUSD distributed more than \$9.9 million in subsidies, but by 2006-07 that figure dropped to less

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than \$1 million.<sup>21</sup> While the subsidy helped ease the transition to RBB, the distribution process was not clear to many in the district and a more consistent source of funding was needed.<sup>22</sup>

In 2010, the district convened an RBB committee to evaluate several parts of the RBB allocation process, including the subsidy. A more uniform system was recommended in which schools with a lower-than-average teacher salary contributed 1 percent of their unrestricted budget to an RBB award pool. This contribution was combined with a central office allocation to the pool. Schools with labor costs greater than the site's unrestricted allocation from the district received an award to cover this "structural deficit."<sup>23</sup> Schools could also apply for discretionary awards given by the RBB committee.

The district also funds a reserve for schools forced to accept higher-paid teachers and staff due to certain contractual obligations.<sup>24</sup> Oakland, like many other districts, is required to fill open positions with displaced teachers and staff. The salaries of these employees may be higher than schools originally expected. Such a fund is necessary to honor the district's commitment to RBB and not penalize schools but also creates an additional financial demand on the district.

## Spreading resources equitably

Allocation of subsidy funds against the percentage of students receiving free or reduced-price lunches in select schools within Oakland Unified School District

School	Enrollment	Percentage of students receiving free or reduced-price lunches	Amount of allocation (\$)
Burckhalter	184	69.0%	8,156
West Oakland Middle	167	100%	36,639
EOSA (Castlemont)	239	77.8%	41,711
Glenview	435	44.1%	45,024
La Escuelita	243	76.5%	45,943
Marshall	211	68.2%	75,336
Howard	198	73.7%	78,009
Dewey HS	282	63.8%	122,441
Leadership Prep	354	73.7%	148,404
Lazear	269	100%	160,642

Source: Oakland Unified School District, 2009-10 Annual School Scorecards, Great Oakland Public Schools.

One concern around transitional funding is that it could help maintain the original salary inequities present in a district by providing subsidies to low-poverty schools. According to former OUSD director Nithin Iyengar, that may have been true in the early years of the subsidy program. Now, however, the majority of schools receiving a structural deficit subsidy appear to be schools with significant numbers of low-income students. The chart on page 8 shows the schools receiving a structural deficit allocation for the 2010-11 school year, the percentage of students classified as receiving free or reduced-price lunches, and the amount each school received from the RBB award pool.

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### New York City's fair student funding formula

New York City's program also provides a telling example. The city constructed a plan similar to Oakland's when some schools transitioned to its Fair Student Funding formula. Schools operating under FSF in the first year of implementation (2007-08) received a supplemental "hold harmless" allocation if funding under the district's old approach was more than FSF.<sup>25</sup> In the second year of implementation (2008-09), the district calculated all allocations using FSF but continued to provide a "hold harmless" allocation to schools with budgets above the FSF allocation.<sup>26</sup>

The district also implemented several policies that allowed schools to maintain their current staffing levels. The district committed to providing schools with enough funding to continue to pay for all teachers on a school's payroll as of the time of FSF implementation (April 2007) regardless of salary increases.<sup>27</sup> The "hold harmless" allocation also permitted schools to replace veteran teachers with other veteran teachers without disrupting school budgets.

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### Transitional funding works

The allocation of transitional funding allows districts to implement significant school finance reforms without dramatically reducing resources at certain schools. Transitional funding can also ease concerns regarding staffing and highly paid veteran teachers. Of course, these subsidy systems may have the unintended consequence of maintaining the maldistribution of expenditures for teacher salaries across a district. Without the "budgeting discipline" imposed by strict adherence to allocated funding, principals at schools with higher numbers of well-paid teachers may not be forced to make critical decisions around the school program.

OUSD's experience, however, may demonstrate that an increase in funding for high-poverty schools and aggressive actions by principals to attract teachers can result in the movement of experienced teachers to higher-poverty schools.

Perhaps equally important to providing transition funding as districts reform their budgeting systems is communicating the need for such reforms to relevant stakeholders. Matt Hill, who supported the transition to RBB in Oakland, instructs districts to be transparent in providing data on funding inequities to teachers and union officials so they can understand the problem. Natural migration between schools and annual retirements may actually reduce the number of schools that are severely over budget due to salaries. If schools are able to keep teachers through the use of a temporary subsidy, teachers may be more supportive of reforms. Ultimately, however, more equitable funding may favor more teachers by making a higher number of schools in the district desirable places to work.

# Expanding the role of school leaders

The comparability provision should ensure that federal money at Title I schools is used to fund activities intended to specifically increase the academic achievement of low-income students. Unfortunately, school leaders rarely have an opportunity to influence important decisions about how money is spent. Instead, district central offices often make crucial decisions regarding everything from the type of curriculum used to the number of literacy coaches a principal can employ. Although principal accountability for student performance has increased, principals in most schools have little power to spend funds in ways they believe can best increase student achievement.

The expansion of principal autonomy over school budgets is a trademark of several districts' funding reforms.<sup>28</sup> Principals are typically granted discretion over hiring decisions but also may select the school's curriculum models and instructional materials, professional development activities, and other aspects of the school program. This new role may require districts to identify new skills to consider in principal selection; develop oversight, support, and training tools; and devise systems to hold principals accountable for how money is spent.

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## Principals informing staffing decisions

Principals are typically told how many staff members (teachers, counselors, and administrative staff) they can employ based on norms for the district. When principals control their own budgets, they have the power to redesign the staff in a way that works best for the school community. For example, a middle school principal may decide that having counselors trained in adolescent development is more important than employing a scheduling assistant. Or a principal may blend roles (for example, having an assistant principal also serve as a teacher) in an effort to save money. District administration and collective bargaining agreements may impose some minimum standards on staffing pertaining to class sizes and certain other positions (for example, Oakland Unified requires principals to

hire office clerks and janitors). But allowing principals flexibility in staff creation can undoubtedly lead to a staff that responds better to student needs.

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### Preparing principals for expanded roles

The ability to create and manage budgets is not necessarily one that most principals immediately possess.<sup>29</sup> Principals must be trained to translate their knowledge about student data, staff capacity, and academic achievement goals into actionable budget items. Increased transparency also requires principals to create lines of communication and collaboration with staff and other stakeholders regarding resource allocations. Furthermore, in an era of continued austerity, principals must be able to keep a balanced budget and plan for potential funding cuts.

More vanguard districts recognize that principal training and support is essential to the success of a decentralized school budgeting plan. Principals are often inexperienced with budgeting tools or may not feel they have the time or inclination to adequately manage the budget process.<sup>30</sup>

In Los Angeles, where more than 70 schools operate under the district's transparent budgeting pilot program, the central office has dedicated resources and staff to supporting principals in the budget process.<sup>31</sup> Financial specialists work directly with principals to analyze and manage budgets and provide training.

Baltimore City Public Schools created a system of school support network teams that consult and provide budget assistance to a cluster of schools.<sup>32</sup> Network staff also assist principals in determining efficient methods of procuring services for their schools.

## Involving stakeholders

A revised comparability provision should also require public reporting of school-level expenditures as a demonstration of financial transparency.<sup>33</sup> This information is integral to holding districts responsible for the equitable distribution of local and state funds. As a recent CAP report, “Lifting the Fog of Averages,” on California’s law requiring the reporting of school-level expenditures noted, several education stakeholders, including civil rights organizations, business groups, and most important, parents, support the disclosure of this information.<sup>34</sup>

Some districts have gone a step beyond disclosure and are bringing parents and other stakeholders into the budgeting process. In California, where school site councils are mandated by law, principals, teachers, and community members make spending decisions related to categorical funds. In several Los Angeles United School District schools where an even greater amount of funds are spent according to principal discretion, principals are encouraged to meet and discuss resource allocation with parents. The district’s Transparent Budgeting Project has taken significant steps to clarify the role of school councils and improve communication between principals and stakeholders.<sup>35</sup>

The Baltimore school district has followed a similar path with its family engagement regulations that require the principal to solicit input from the school community on the school budget and to consult with a small group of stakeholders that provide “direct advisory input” to the principal on priorities in the budget.<sup>36</sup>

## Beyond budgeting

A revised and more demanding comparability provision will increase funding equity in districts nationwide. Many high-poverty schools may experience an increase in resources allowing for an expansion in academic opportunities for students. And the potential growth of principal autonomy and stakeholder involvement in the allocation of resources could focus funds in innovative and meaningful ways.

Funding equity and transparency, however, must be linked to other important reforms related to district management, school improvement strategies, human capital policies, and data collection. Oakland, with one of the country's most far-reaching school funding reform efforts, launched RBB as part of a larger "Expect Success" plan. In addition to implementing an innovative small-schools strategy, OUSD aggressively reformed its central office operations, set high but attainable academic goals for all of its students, improved data collection, and made school-community communication and collaboration a high priority. Oakland's reform efforts have resulted in continual gains on California's Academic Performance Index, including a 26-point increase in 2010.<sup>37</sup>

One area of district operations that can heavily influence the strength of funding reforms is that of staffing and other human capital policies. Rules that limit the access of schools to certain teachers or require schools to hire displaced teachers can undermine principal autonomy and the impact of funding equity. Seniority provisions in collective bargaining agreements and contracts may require principals to first attempt to fill positions with teachers that have been displaced from other schools before they can undertake their own recruitment and placement.

Recent budget cuts caused a reduction in force in Los Angeles where Georgia Lazo, principal of UCLA Community School, was permitted to hire only from a certain pool of mostly veteran teachers. High salary expenditures forced Lazo to have to cut back on plans for other spending.<sup>38</sup> Such rules not only limit a principal's ability to build the staff she wants, but also can negatively impact a

school budget if schools must take on several highly paid teachers. Furthermore, districts cannot expect to recruit high-caliber school leaders if they have no say over the teachers on their staff.

Instituting a staffing system in which principals are permitted to hire teachers from within and outside of the district, with a priority on effectiveness and fit over seniority, can free school principals to use funds to create a highly effective staff. New York City's contract with the United Federation of Teachers allows for just such a system of open hiring.

Districts that cannot immediately implement these human capital reforms can negotiate for a subsection of schools to have staffing autonomy as a pilot for district-wide implementation. Los Angeles's Belmont Pilot Schools Network (early implementers of the district's per-pupil budgeting system) entered into a memorandum of understanding with the United Teachers of Los Angeles to guarantee certain autonomies, including power over staffing.<sup>39</sup> Even if staffing restrictions stay in place, districts can take steps to reduce the impact on school budgets. OUSD created a system of cost-sharing for schools that were required to hire more expensive teachers through the district's "priority placement" rules.<sup>40</sup>

Accountability systems may also look different as districts work to reform the way funds are allocated to schools. As low-performing, high-poverty schools receive more funding, districts must analyze ongoing poor performance in the context of already increased funding. Districts must create structures to hold principals accountable for the way funds are spent and assess the correlation between resource allocation and student achievement. Measures of accountability for principals need to reflect the amount of funds over which principals have actual control and the impact of other district and state policies on student achievement.

Furthermore, districts must ensure that high-poverty schools are not negatively impacted by decreased oversight from the central office. Districts can best support fragile, low-performing, high-poverty schools by providing a pipeline of strong leaders and teachers that can succeed with increased autonomy. Districts cannot assume all leaders will be ready to assume the responsibilities required under school-based budgeting. A method of phasing in school-based budgeting or planning implementation in accordance with human capital reforms will reduce the likelihood that more fragile, high-needs schools will be negatively impacted.

# Conclusion

The budget process in most school districts is a byzantine matter, understood and managed by a few central office staff members. But it does not take intimate knowledge of accounting principles and funding streams to understand that these dysfunctional processes often deprive high-poverty schools and students of equitable funding and schools of the ability to use resources effectively. A strengthened comparability provision may be exactly the catalyst needed to force districts to closely examine resource allocation methods and radically change the way school funds are managed. In the interim, districts can glean important lessons from funding reforms happening around the country.

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Saba Bireda was an Education Policy Analyst at the Center for American Progress. She comes to the Center from Philadelphia, where she was a Philadelphia Bar Foundation Fellow with the Education Law Center. At American Progress, she worked on several education policy issues, including school improvement strategies, teacher effectiveness, and fiscal equity.

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